

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

--	--	--	--	--	--	--	--	--	--

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

PPE0054 – BASIC MACROECONOMICS
(Foundation in Business)

12 MARCH 2020
9.00 a.m. – 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **ELEVEN** pages.
2. Answer **ALL** questions in **Section A** and **B**.
3. The answers for **Section A** should be shaded on the OMR sheet. The answers for **Section B** should be written in the Answer Booklet.

SECTION A: MULTIPLE CHOICE QUESTIONS [30 MARKS]

Instructions: Answer **ALL** questions in this section. Shade the answers on the **OMR** sheet.

1. If the prices of goods and services were expressed in terms of carved wooden beads, then the carved wooden beads would be serving as a _____.
A. store of value
B. unit of account
C. medium of exchange
D. mechanism for transforming present purchases into future purchases
2. If a person takes RM200 from his/her piggy bank at home and puts it in his/her checking account, then M1 will _____ and M2 will _____.
A. increase; increase
B. not change; increase
C. decrease; not change
D. not change; not change
3. Banks can continue to make loans until their _____.
A. actual reserves equal their excess reserves
B. actual reserves equal their required reserves
C. excess reserves equal their required reserves
D. actual reserves equal their checking account balances
4. A decrease in the discount rate _____ bank reserves and _____ the money supply if banks respond appropriately to the change in the rate.
A. increases; increases
B. increases; decreases
C. decreases; increases
D. decreases; decreases
5. Precautionary demand for money will fall when _____.
A. the interest rate rises
B. the interest rate falls
C. government spending falls
D. the money supply increases
6. When the central bank decreases the money supply, at the original equilibrium interest rate households and firms will now want to _____.
A. sell bonds
B. buy bonds
C. hold less money
D. neither buy nor sell bonds

Continued.....

7. Assume that at Bank A excess reserves are RM0; cash leakages are RM0; reserve requirements are 20 percent. If Janet deposits RM1,000 to her saving account in Bank A, her bank's loans or investments could change by _____.
A. +RM800
B. +RM200
C. -RM200
D. +RM1,000
8. Suppose the central bank engages in open market operations and sells government securities. The result is _____.
A. lower interest rates
B. higher interest rates
C. interest rates remain unchanged since there is no reason to think bond prices changed
D. uncertain since more information is needed
9. Under which one of the following situations would you be better off?
A. You have RM10,000 in your savings account paying 5 percent per year and unanticipated inflation is 8 percent per year.
B. You lend a friend RM10,000 at 2 percent to be repaid in one year and unanticipated inflation is 4 percent during the year.
C. You borrowed RM10,000 at 2 percent to pay for this year's college expenses and unanticipated inflation is 3 percent during the year.
D. None of the above
10. Suppose the rate of inflation unexpectedly decreases from 7% to 4%. Which one of the following would most likely benefit from this unexpected reduction in the rate of inflation?
A. debtors
B. creditors
C. creditors and debtors
D. a borrower whose loan has a fixed nominal interest rate
11. Suppose the actual inflation rate is less than the anticipated inflation rate. Given this information, we know with certainty that the real rate of interest _____.
A. is negative
B. is more than the nominal rate of interest
C. equals the nominal rate of interest
D. none of the above i.e. more information is needed to answer this question
12. If the price level rose in three consecutive years from 100 to 120 to 140, then the annual inflation rate over those years would _____.
A. increase
B. decrease
C. equal 20%
D. remain the same

Continued.....

13. Suppose that homemakers are included as employed in the labour force statistics, rather than being counted as out of the labour force. This would _____.
- increase the measured unemployment rate
 - decrease the number of persons in the labour force
 - increase the measured labour force participation rate
 - decrease the number of persons in the working-age population
14. If the federal government implements programs so that the unemployed are more quickly matched with jobs, then _____.
- the natural rate of unemployment will increase
 - the natural rate of unemployment will decrease
 - the natural rate of unemployment will not change
 - the natural rate of unemployment could either increase or decrease
15. An example of a frictionally unemployed individual is _____.
- Marty, who quit her job to find work closer to her home
 - Lydia, who has few skills and is no longer looking for work
 - Charley, who has lost his job as an automobile worker because of increased imports
 - Sammy, who lost his job as a real estate salesperson when the housing market went soft
16. The price level in the economy between 2016 and 2017 rose from 100 to 105. Between 2017 and 2018, the price level rose from 105 to 110.25. How does the short-run Phillips curve predict the unemployment rate will change as a result?
- The unemployment rate will decrease since inflation decreased.
 - The unemployment rate will decrease since inflation increased.
 - The unemployment rate will increase since inflation increased.
 - The unemployment rate would not change since there is no change in the rate of inflation.

Refer to *Exhibit 1* for question no.17.

Price (dollars per unit)	Quantity demanded (units per day)	Quantity supplied (units per day)
2	20	14
4	19	16
6	18	18
8	17	20
10	16	22
12	15	24

Exhibit 1

17. Based on *Exhibit 1*, the country will import the good if the world price is less than _____ and will export the good if the world price is more than _____.
- \$4; \$4
 - \$6; \$6
 - \$8; \$4
 - \$10; \$10

Continued.....

18. Consider a world with two countries and two goods. Under which of the following conditions does comparative advantage **NOT** exist?
- A. One country can produce both goods more cheaply than the other country.
 - B. The opportunity cost of producing each good is the same in each country.
 - C. One country has more productive resources or inputs than another country.
 - D. One country has an absolute advantage in producing one good while the other country has an absolute advantage in producing the other good.
19. The United States exports a good if its no-trade U.S. price is _____ its world price. With international trade, U.S. production of the good _____ compared to the level of no-trade production.
- A. lower than; increases
 - B. higher than; increases
 - C. the same as; increases
 - D. higher than; does not change
20. If the residents of a country specialise in a good in which they have a comparative advantage and trade with residents in another nation, the residents in the first country _____.
- A. will have a lower standard of living
 - B. will be exploited by the second nation
 - C. will produce less than they could without trade
 - D. can consume more than they could without trade
21. If Malaysia imports purses, then the quantity of purses produced in Malaysia will _____ and the quantity of purses bought by consumers in Malaysia will _____.
- A. increase; increase
 - B. increase; decrease
 - C. decrease; increase
 - D. decrease; decrease
22. One way tariffs differ from quotas is that _____.
- A. tariffs are applied only on raw materials.
 - B. tariffs produce no revenues but set limits on the imported items.
 - C. tariffs produce revenues for the importing country's government.
 - D. quotas produce revenues for the exporting country's government.
23. If the U.S. official reserves increase, the _____.
- A. current account increases
 - B. balance of payments increases
 - C. official settlements account balance is negative
 - D. official settlements account balance is positive

Continued.....

24. The balance of trade is _____.
- the difference between exports and imports of services
 - the difference between exports and imports of goods and services
 - the summary record of a country's economic transactions with foreigners in a year
 - none of the above
25. Which of the following would increase the current account balance of the United States?
- an increase in imports
 - an increase in the balance of trade
 - an increase in the amount of money the U.S. government sends in foreign aid to other countries
 - an increase in the amount of income U.S. companies pay out to foreigners who own investments in the United States
26. A U.S. family flies from Boston to Shanghai on a China Airlines plane. This transaction is _____.
- a deficit item in the balance of payment accounts of China
 - considered an export of service in the U.S balance of payment accounts
 - both of the above are correct
 - none of the above

Refer to **Exhibit 2** for question no.27.

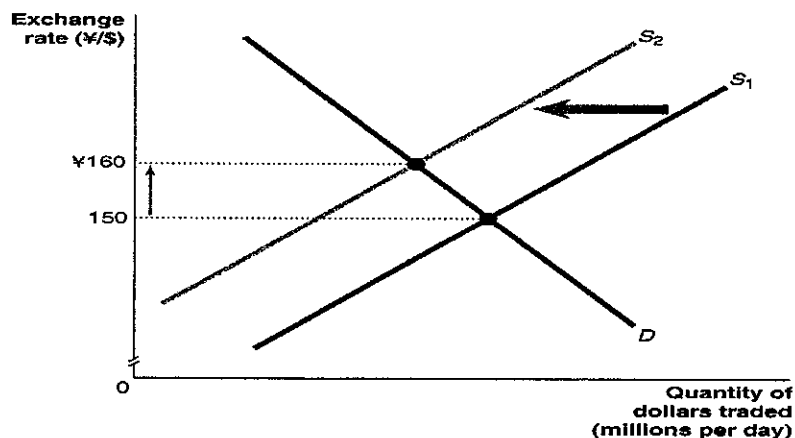


Exhibit 2

27. Consider the market for U.S. dollars against the Japanese yen as shown in **Exhibit 2**. An event which could have caused the changes shown in the graph would be _____.
- an increase in U.S. real income
 - a decrease in Japanese interest rates
 - an economic expansion in the United States
 - speculators expect the dollar to depreciate in value in the near future

Continued.....

28. You're traveling in Ireland and are thinking about buying a new digital camera. You would be willing to pay \$125 for a new camera, but cameras in Ireland are all priced in euros. If the exchange rate is 0.85 euros per dollar, what's the highest price in euros you'd be willing to pay for a camera?
- A. 105 euros
 - B. 147 euros
 - C. 106.25 euros
 - D. 110.15 euros
29. The recession of 2007-2009 decreased the demand for imports in Japan, which caused the _____ curve for the yen to shift to the _____, increasing the exchange rate and the value of the yen.
- A. supply; right
 - B. supply; left
 - C. demand; right
 - D. demand; left
30. When the economy experiences a balance of payments surplus in a fixed exchange rate system, the central bank must _____ to maintain the exchange rate.
- A. sell bonds
 - B. buy home currency
 - C. sell foreign currency
 - D. buy foreign currency

SECTION B: STRUCTURED QUESTIONS [70 MARKS]

Instructions: Answer **ALL** questions in this section. Write your answers in the Answer Booklet.

Question 1

Part A

Suppose ABC Bank has assets that consist of required reserves equals \$200,000, excess reserves equals \$200,000 and loans amounting to \$1.6 million. Assume that the only liabilities of ABC Bank are demand deposits.

- a) Prepare the balance sheet of ABC Bank based on the above information.
(2.5 marks)
- b) Calculate the reserve requirement ratio.
(1.5 marks)
- c) Suppose James Bond comes to ABC Bank and deposits \$500,000.
 - i. Based on James Bond's deposit, how much should ABC Bank keep as required reserve and how much is the excess reserves?
(3 marks)
 - ii. Assuming that ABC Bank loaned out all of its excess reserves. What are the new amount of loans that can be given out by ABC Bank?
(1.5 marks)
 - iii. Prepare new balance sheet for ABC Bank after all loans are given out.
(2 marks)

Continued.....

- iv. Calculate the value of money multiplier. (1 mark)
- v. Calculate total amount of money created in the banking system from the new loans after infinite rounds of depositing and lending. (2 marks)

Part B

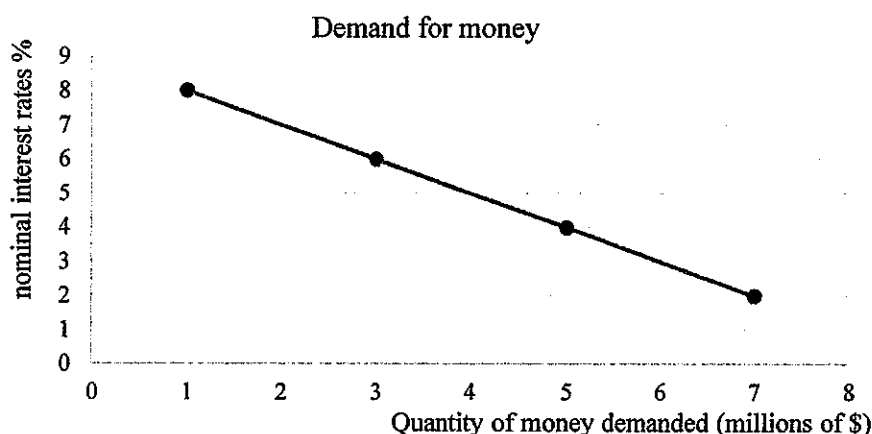


Exhibit 3

Based on ***Exhibit 3***, answer the following questions.

- a) How much would be the quantity of money supplied if the equilibrium nominal interest rate is 6 percent per year? Briefly explain. (1.5 marks)
- a) If the equilibrium nominal interest rate is 6% per year, at which interest rate would result in an excess demand for money? Explain what eventually happen to the interest rate? (2.5 marks)
- b) Suppose that the central bank decreases the discount rates. Explain what will happen to the equilibrium nominal interest rate? (3 marks)

Part C

Exhibit 4 shows data on inflation rates and unemployment rates for Country A over a seven-year period.

Year	Inflation Rate (%)	Unemployment Rate (%)
Year 1	0.0	7.5
Year 2	-2.0	9.0
Year 3	4.0	5.0
Year 4	6.0	4.0
Year 5	10.0	2.5
Year 6	2.0	6.0
Year 7	-4.0	10.5

Exhibit 4

Continued.....

Based on *Exhibit 4*, answer the following questions.

- a) Suppose Country A has a population of 1 million over the age of 16. The labour-force participation rate is 90%.
 - i. Calculate the number of workers unemployed in Year 1. (2.5 marks)
 - ii. Calculate the number of workers employed in Year 7. (2.5 marks)
- b) Assume that the citizens of Country A, when trying to determine the inflation rate for the next 12 months, base their calculations solely on the current inflation rate.
 - i. During the period from Year 2 to Year 5, determine whether borrowers or creditors will be gaining or losing? Explain. (2.5 marks)
 - ii. Suppose in Year 5 and Year 7, the market interest rates were 12% and 8% respectively. Calculate the real interest rates for both periods. (2 marks)

[TOTAL 30 MARKS]

Question 2

Part A

Consider two countries, Russia and the United States, each capable of producing soybeans and wheat. Assume that for a given amount of inputs, the production possibilities for these two countries are as shown in *Exhibit 5*.

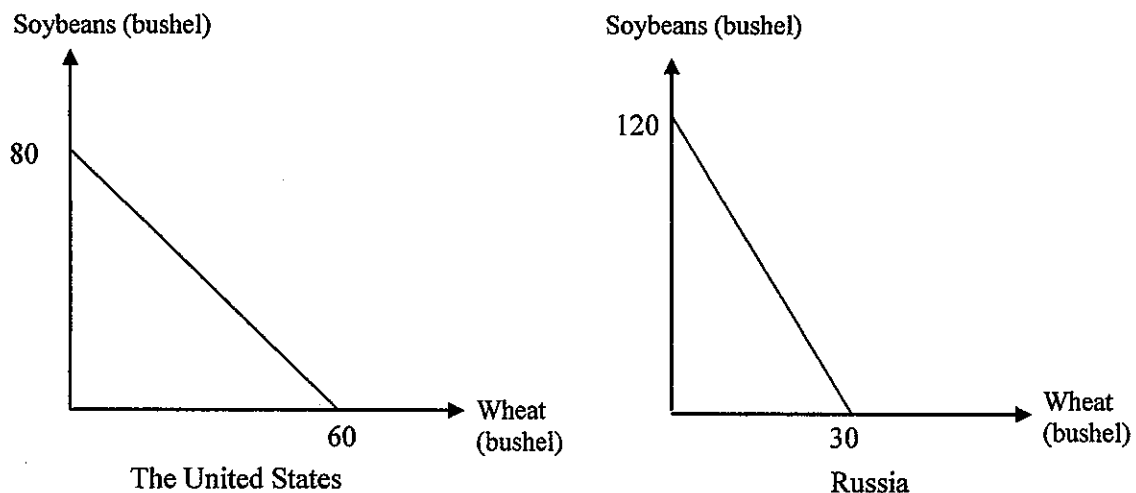


Exhibit 5

Based on *Exhibit 5*, answer the following questions.

- a) How many bushels of wheat does each country give up for an additional bushel of soybeans produced? (3 marks)
- b) How many bushels of soybeans does each country give up for an additional bushel of wheat produced? (3 marks)

Continued.....

- c) Which country has a comparative advantage in producing soybeans? Briefly explain.
(1 mark)
- d) Which country has a comparative advantage in producing wheat? Briefly explain.
(1 mark)
- e) If these two countries split the difference between the buyer's willingness to pay and the seller's willingness to accept, what are the terms of trade for each bushel of soybeans?
(1 mark)
- f) Suppose each country specialises in the good for which it has comparative advantage, and they exchange 40 bushels of soybeans for some bushels of wheat. Compute the consumption bundles of wheat and soybeans for each country.
(2 marks)

Part B

Exhibit 6 shows demand and supply schedules of canned plums in Canada.

Price (\$)	Quantity demanded	Quantity supplied
4	1200	0
6	1000	200
8	800	400
10	600	600
12	400	800
14	200	1000
16	0	1200

Exhibit 6

Based on *Exhibit 6*, answer the following questions.

- a) In the absence of trade, what would be the equilibrium price of canned plums and the level of production in Canada?
(1 mark)
- b) If the world price of canned plums is \$12 per can and Canada engages in trade, does Canada import or export canned plums? What is the quantity imported or exported?
(2 marks)
- c) Calculate the value of consumer surplus before and after trade.
(2 marks)
- d) Calculate the value of producer surplus received by the producers before and after trade.
(2 marks)
- e) If trade is allowed, who gains and who losses, the consumers or the producers?
(2 marks)

[TOTAL 20 MARKS]

Continued.....

Question 3**Part A**

Exhibit 7 describes the economy data of Country B in 2015.

Item	\$ (billion)
Exports of goods	480
Exports of services	80
Country B investment abroad	63
Statistical discrepancy	- 26
Income from Country B assets abroad	25
Foreign investment in Country B	50
Increase in Country B official reserve assets	4
Income from foreign assets in Country B	40
Decrease in foreign official reserve assets in Country B	10
Imports of goods	420
Imports of services	84
Net unilateral transfers	-8

Exhibit 7

Based on **Exhibit 7**, calculate

- merchandise trade balance. (1.5 marks)
- current account balance. (4 marks)
- capital account balance. (1.5 marks)
- net change in official reserve balance. (1.5 marks)
- balance of payments. (2.5 marks)

Part B

- In the foreign exchange market between the U.S. dollar and ringgit (RM), identify whether each of the following would lead to an appreciation or depreciation of ringgit. In each case, explain why the currency either appreciates or depreciates.
 - Malaysian citizens switch from buying stock in the U.S. companies to buying stock in home country.
 - A lower interest rates in Malaysia.
 (4 marks)
- Graph the supply and demand for the foreign exchange market, express in terms of U.S. dollar (\$) per ringgit (RM). Show the equilibrium exchange rate at \$0.25 per RM. (2.5 marks)

Continued.....

- c) Suppose that Malaysia decided to fix its currency (RM) against the U.S. dollar. To maintain the fixed exchange rates, Malaysia would have to purchase surplus of ringgit (RM) on the foreign exchange market, and thus, reducing Malaysia reserves of dollars. Based on this situation, determine whether ringgit has been overvalued or undervalued. What happen to balance of payments for Malaysia? Show graphically this situation in the diagram that you have drawn in b).

(2.5 marks)

[TOTAL 20 MARKS]

End of paper